

3 July 2013

Mr Matt Zema
Chief Executive Officer
Australian Energy Market Operator
GPO Box 2008
MELBOURNE VIC 3000

Dear Mr Zema

Value of customer reliability – Response to Directions Paper

ActewAGL Distribution (ActewAGL) welcomes the opportunity to respond to the Australian Energy Market Operator's (AEMO's) Directions Paper (the Paper) on the value of customer reliability (VCR).

ActewAGL views estimates of customer willingness to pay, whether defined in terms of lost load, reliability statistics or specific events, as crucial to the process of moving towards customers' preferred balance between cost and reliability. As discussed in our submission to the Issues Paper, ActewAGL uses the results from two choice modelling (CM) studies conducted in the Australian Capital Territory (ACT) by NERA and ACNielsen in 2003 and by the Australian National University in 2012.

ActewAGL strongly supports and endorses AEMO's stated intention in the Paper to use a CM approach to estimate VCR for the reasons set out in our response to the Issues Paper. The Paper also proposes the use of contingent valuation questions in addition to choice modelling. The rationale for and format of these questions will require further consideration. ActewAGL considers there could be some merit in using dichotomous choice contingent valuation questions as a check on the choice modelling results if this would provide more confidence in the findings to policy makers. ActewAGL would not, however, support the use of open-ended contingent valuation questions, since this technique is not well supported by academic literature.

Experience from the studies conducted in the ACT has highlighted the value in using focus groups and pilot surveys to thoroughly test the survey instrument before proceeding to the main survey to identify any framing effects; to ensure the choice questions are plausible; to ensure respondents feel they have sufficient information; and to ensure respondents are convinced as far as possible that the survey findings may affect both the reliability and the cost of their electricity service. Despite the relatively short timeframe that has been allowed for this study, our view is that this pre-testing phase is needed to provide sufficient confidence in the results.

It will also be important to ensure the surveys capture a representative sample of customers. ActewAGL is concerned that the initial face-to-face forums proposed in the Paper may lead to sample selection bias and would therefore not support AEMO using these forums as the primary means of recruiting survey participants.

The respective roles of the AEMO national study and targeted, network-specific studies will require consideration. ActewAGL's view is that estimates from network-specific studies, such as those conducted in the ACT over the past decade, should displace those from AEMO's national study, where they are available. These targeted studies capture valuable information on heterogeneity in preferences across areas within National Electricity Market (NEM) regions. It may not be practicable to capture this information in the AEMO national study. ActewAGL understands that AEMO's current intention is to estimate VCR for four customer classes in each NEM region. This would mean, for example, that a single VCR would be estimated for all residential customers across the New South Wales (NSW) NEM region. ActewAGL recognises that recruitment of a sample size required to develop more granular estimates in a national study would require considerable extra resources.¹ ActewAGL expects the AEMO VCR estimates will provide input to analysis being undertaken on a NEM-wide or NEM region scale and to network-specific analysis in cases where VCR estimates from targeted, local studies are unavailable.

We would be pleased to discuss the matters raised in this submission with your staff in more detail. Please contact in the first instance Dr Ben McNair, Principal Economist, on (02) 6248 3386.

Yours sincerely



David Graham
Director Regulatory Affairs and Pricing

¹ For example, if 250 respondents were required for each statistically significant VCR estimate, then estimating VCR for four feeder types by four customer classes by five NEM regions could require 20,000 usable survey responses.